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REVIEW GUIDE
FOR
FEDERAL AGENCY
PAYROLL SYSTEM DESIGNS

UNITED STATES GENERAL ACCOUNTING OFFICE

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REVIEW GUIDE FOR FEDERAL AGENCY

PAYROLL SYSTEM DESIGNS

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SECTION I

INTRODUCTION

This review guide is designed to be used by:

- staffs of Federal agencies in developing their payroll system designs to the point where approval by the Comptroller General can be requested,
- staffs of Federal agencies in developing the documentation of the payroll system design being submitted for approval by the Comptroller General, and
- the GAO Financial Management Staff in systematically considering and reviewing designs of payroll systems submitted by executive agencies for approval by the Comptroller General.

Other review guides have been developed for use in evaluating designs of (1) accounting systems and (2) ADP aspects of accounting systems including payroll accounting. The appropriate review guide(s) should be completed and submitted by the agency when submitting the system design for review. A separate review guide has also been prepared for use in evaluating statements of accounting principles and standards, including the principles and standards applicable to a payroll system.

CONCEPT AND COMPOSITION

The review guide is structured on the concept that processes will be reviewed first, the account structure second, and reports last. The review guide is, therefore, divided into sections which correspond with this approach. Each of these sections includes four parts:

1. The "Objectives" part of each section sets forth broadly stated objectives which that portion of the review is to accomplish and is intended to provide the reviewer with a general goal toward which he should work.

2. The "Discussion" part of each section brings out certain additional information and explanation relating to GAO requirements that would be useful to the reviewer during his evaluation, and to an agency in developing documentation, but which are not necessarily stated specifically in the Comptroller General's principles and standards.

3. The "Check List" part of each section presents selected questions to be answered by the agency and to be cross-referenced to the design documentation. (Further discussion of this area is presented on page 1-3).

4. The "Summary" part of each section provides an outline for briefly describing the results of the review and is intended to facilitate and expedite preparation of the required summary report by the GAO reviewer. It need not be of concern to agencies in developing and providing references to their system design presentations.

REFERENCES

Notations that appear in parentheses at the end of the check list questions are references to applicable sections in Title 2 and Title 6 of the GAO Manual for Guidance of Federal Agencies.

Notations that appear in parentheses in the summary part of each section are references to a GAO Financial Management Staff internal memorandum which provides guidelines to GAO reviewers for preparing a

required internal summary report upon completion of the review.

CHECKLISTS

Some of the questions included in the different sections of the review guide are similar. For example, most of the sections on processes ask whether the design contains charts supplemented by narrative description showing the flow of documents and data through the system. Although these appear to represent duplications, it should be kept in mind that the check lists are intended as a tool to aid the reviewer in identifying discrete portions of the system documentation upon which to focus his evaluation in determining whether the system design as a whole conforms to the principles and standards and related requirements.

The check lists also assist in assuring that the design documentation includes the necessary elements. In completing the check list parts, agencies may prefer to provide one overall reference (or a series of references) to answer similar questions. To avoid unnecessary effort and/or misinterpretation of the check list questions, it is recommended that agencies consult with GAO staff members when completing the check lists.

In order to fully comprehend the requirements of the checklist, the related textual portions of Title 2 and 6 should be read and understood. The checklist should be considered as an aid in making the appraisal of the design. The evaluation should be against the requirements of Titles 2 and 6.

APPLICABILITY

The review guide covers the principles and standards and requirements prescribed by the Comptroller General. However, some systems submitted for approval may not involve all such principles and standards and requirements. Therefore, in reviewing a particular system design some

adjustments to the review guide may be necessary.

The contents of this Review Guide apply to all agencies' general accounting system designs to the extent that the questions are applicable to their particular payroll operations. For example, some agencies do not have complete payroll systems. The payroll processing segments of their payroll systems are serviced through other agency payroll systems. Agencies in this situation would not be expected to answer questions in this review guide concerning payroll processing or automation but would be expected to answer the applicable questions concerning pay administration, preparation and control of input data, control over transmission of output data, and reporting.

Prior to assembling the documentation for a system design being submitted for GAO's approval, agencies should identify the principles and standards or related requirements and the check list questions which are not applicable to the system design. Those check list questions should be answered with the words "not applicable" (N/A). Likewise, before starting to review the design, the reviewer should identify the principles and standards or related requirements and the check list questions which are not applicable to the design being reviewed.

FEDERAL AGENCY'S RESPONSES

A positive answer to a check list question should be followed by a reference to the pertinent part(s) the design documentation (by page and paragraph number) which demonstrates how the system design or the design documentation relates to the question asked.

A negative answer or an answer of "not applicable" should include a reference to a statement in the agency's submission which explains the reason or justification for such a response. The reviewer should be alert to the possibility that such answers may indicate a deviation from a prescribed principle or standard.

ADVANTAGES

Use of the review guide in reviewing payroll system designs is intended to provide the following advantages:

1. Contribute to the completeness of the review as it requires analysis of the design in relation to particular principles and standards.
2. Contribute to the efficiency of the review in that related principles and standards are grouped and each group is to be reviewed in a logical sequence.
3. Ensure that a consistent approach will be followed in reviewing each system design.

NOTE

An asterisk before a question indicates that the applicable principle or standard when approved as an amendment to Title 6 will be issued under Transmittal Sheet No. 6-29.

SECTION 2
PRINCIPAL OBJECTIVES OF A
PAYROLL SYSTEM

The payroll system must be designed to assure that the following principal objectives are met: (6 GAO 4)

- (1) Prompt payment in the proper amount to all persons entitled to be paid in compliance with applicable laws and regulations, with consideration being given to all authorized deductions from gross pay.
- (2) Proper disposition of all authorized deductions from gross pay.
- (3) Appropriate integration of the payroll system with the general accounting system.
- (4) Timely preparation of adequate and reliable payroll records, as a part of the regular accounting system, needed for (a) management purposes, (b) preparation, support, and control of the budget,(c) internal and external reporting requirements, and (d) support of valid payments.
- (5) Effective communication between employer and employee on payroll matters.
- (6) Adequate control over all phases and segments of the payroll system including the amount of leave earned and used and the balance remaining for each employee entitled to leave in accordance with applicable laws and regulations.
- (7) Proper coordination of pay, leave, and allowance operations with personnel functions and other related activities.

SECTION 3

GENERAL SYSTEM INFORMATION

OBJECTIVES

Primary objectives are to:

- identify the relationship of the payroll system to agency financial management functions;
- identify the interface of the payroll system to other systems;
- ensure that a uniform payroll system is designed; and
- identify the agency's plans for implementation of the design.

DISCUSSION

The design documentation should clearly define the geographic, and organizational or functional entities to be serviced by the payroll system. Where the payroll system interfaces with other systems, the design shall identify and describe the controls over the timeliness, completeness and accuracy of data transfer to and from the payroll system. The reviewer should evaluate whether data can flow through the system in a timely manner.

The reviewer should be concerned that the plan for **implementation** of the design is feasible and reasonable. Failure to implement the system promptly or consistent with the design could result in the withdrawal of the approval.

CHECK LIST

Answer

Reference

- | | | |
|--|-------|-------|
| 1. Does the design identify the organizational entities or functions to be serviced by the payroll system? (2 GAO 27.5, 1b(1)) | _____ | _____ |
| 2. Does the design identify the location(s) and organizational levels where: (2 GAO 27.5,3e) | | |
| (a) payroll computations will be performed? | _____ | _____ |
| (b) source documents will originate and be maintained? | _____ | _____ |
| 3. Does the design describe the plan of organization for carrying out the various functions pertaining to pay, leave and allowances? (6 GAO 9) | _____ | _____ |
| 4. Does the design describe the extent to which the payroll processes will be performed by automatic data processing? (2 GAO 27.5, 6a,(1)) | _____ | _____ |
| 5. Does the design include a general system flowchart and narrative describing the system? (2 GAO 27.5,6a(2)) | _____ | _____ |
| 6. Does the design provide for uniformity in: (6 GAO 7, and 14) | | |
| (a) processing pay, leave, and allowances? | _____ | _____ |
| (b) reporting time and attendance? | _____ | _____ |
| (c) computing pay and allowances? | _____ | _____ |
| (d) maintaining records? | _____ | _____ |
| (e) other payroll related operations? | _____ | _____ |
| 7. Is the payroll system an integral part of the accounting system? (6 GAO 13) | _____ | _____ |

	<u>Answer</u>	<u>Reference</u>
8. Does the design identify the systems or functions which interface with or relate to the payroll system, such as:		
(a) cost accounting systems? (6 GAO 13)	_____	_____
(b) personnel systems? (2 GAO 27.5,1.b.(3))	_____	_____
(c) management information systems? (2 GAO 27.5, 1b(3))	_____	_____
9. Does the design describe:		
(a) the relationship between the payroll system and the other systems or functions identified in question 8?	_____	_____
(b) the inputs to be received for use in the payroll processing?	_____	_____
(c) the outputs of the payroll system used by other systems?	_____	_____
10. Does the design documentation include: (for systems not yet implemented)		
(a) a schedule for the development of procedures and manuals needed to implement the payroll system design? (2 GAO 27.5, 8a and 6 GAO 7)	_____	_____
(b) the proposed conversion process including plans for training? (2 GAO 27.5, 8a)	_____	_____
(c) a tentative schedule for implementation of the system? (2 GAO 27.5, 8a)	_____	_____
(d) a description of the planned methods for testing the logic and reliability of the system? (2 GAO 27.5, 8b)	_____	_____

	<u>Answer</u>	<u>Reference</u>
(e) if the system has already been tested:		
(1) have the results been evaluated?	_____	_____
(2) have appropriate adjustments been made in the system design to prevent the problems identified from occurring in the future? (2 GAO 27.5, 8b)	_____	_____

SUMMARY

Briefly describe the relationship of the system involved to other systems of the agency and to the agency's overall financial management system. (2/19/75 Memo Item B(4)).

Briefly indicate the extent to which the system is integrated or interfaced with other financial management functions of the agency. (2/19/75 Memo Item B(5)).

Comment on any problem areas noted. (2/19/75 Memo Item D).

SECTION 4

PROCESSES

AUTHORIZING DOCUMENTS

OBJECTIVES

Primary objectives are to:

- determine that the controls over the source documents which authorize the rate of pay, allowance, and leave are adequate;
- ensure that data is accurately and promptly recorded in the payroll and interfacing systems; and
- ensure the accuracy and reliability of recorded data as it is processed through the payroll system.

DISCUSSION

Systematic controls must be applied to all source documents which effect the computation of earnings and leave. Such controls are required whether the documents are recorded initially in interfacing personnel systems or directly into the payroll system. Controls should ensure that all data is considered in the processing, that no alterations are made to the data, and that data is accurately and completely transmitted into the payroll system in a timely manner.

CHECK LIST

	<u>Answer</u>	<u>Reference</u>
1. Does the design contain charts supplemented by narrative description to show the flow of documents and data which authorize pay, leave and allowances through the system? (2 GAO 27.5, 4a)	_____	_____
2. Does the design provide for controls over quantity, timeliness, reliability and accuracy of input, processing, and outputs of authorizing documents		

	<u>Answer</u>	<u>Reference</u>
<p>which will assure accurate and prompt recording and reporting of the effect of information included on the documents in the pay period to which applicable? (2 GAO 27.5, 7b; 6 GAO 15.0 and 15.1)</p>	_____	_____
<p>3. Have audit trails been identified in the system to enable tracing of recorded data to authorizing documents? (2 GAO 27.5, 7c)</p>	_____	_____
<p>4. Does the design provide that employees engaged in the preparation and maintenance of documents authorizing or evidencing payments shall not service their own individual pay account? (6 GAO 15.1)</p>	_____	_____
<p>5. Does the design require that all authorizing documents be signed by an appropriate official? (6 GAO 16.0, 16.2 and 20.4)</p>	_____	_____
<p>6. Are officials who sign authorizing documents precluded from performing other payroll functions? (6 GAO 9)</p>	_____	_____
<p>7. Does the design require that employees cannot approve their own time and attendance reports? (6 GAO 16.2)</p>	_____	_____
<p>8. Are corrections of data approved by an appropriate individual and evidenced by an appropriate authorizing document? (6 GAO 20.9)</p>	_____	_____
<p>9. Does the design contain the formats of the authorizing documents? (6 GAO 16.0)</p>	_____	_____

	<u>Answer</u>	<u>Reference</u>
10. Does the design provide for notifying employees of changes in pay which are not Government-wide in nature? (6 GAO 16.1)	_____	_____
11. Does the design include reference to the provisions of the regulations authorizing:		
(a) allowances to employees at foreign posts of duty? (6 GAO 22.1)	_____	_____
(b) allowances in kind to employees in the non-foreign field services? (6 GAO 22.2)	_____	_____
12. Are appropriate files maintained to accumulate the authorizing pay, leave and allowance documents for each individual? (6 GAO 25.0)	_____	_____
13. Are document retention schedules in accordance with the GAO approved fiscal records program? (6 GAO 16.2 and 25)	_____	_____

SUMMARY

Briefly comment on the controls over authorizing documents and data.

Comment on any problem areas noted. (2/19/75 Memo Item D).

SECTION 5

PROCESSES

TIME AND ATTENDANCE AND LEAVE REPORTING

OBJECTIVES

Primary objectives are to:

- determine that the controls over the preparation and processing of source documents which record each individual's presence or leave status are adequate;
- ensure that attendance and leave data are accurately and promptly recorded in the payroll records; and
- ensure the accuracy and reliability of recorded data as it is processed through the payroll system.

DISCUSSION

The processes to be considered under this section include both the function of recording the entitlement to be paid and the function of recording leave earned, taken and approved. The processes should show how attendance, premium pay time, and leave data are accumulated, computed, and leave balances determined.

CHECK LIST

Answer

Reference

1. Does the design contain charts supplemented by narrative descriptions to show the flow of time and attendance and leave documents and data through the payroll system? (2 GAO 27.5,4a) _____
2. Does the design provide for controls over quantity, timeliness, reliability, and accuracy of inputs, processing, and outputs of time and attendance and leave documents and data which will assure accurate and prompt recording and reporting of their effect in the pay period to

	<u>Answer</u>	<u>Reference</u>
which applicable? (2 GAO 27.5, 7b; 6 GAO 15.1 and 15.2)	_____	_____
3. Have audit trails been identified in the system to enable tracing of recorded attendance and leave data to supporting documents? (2 GAO 27.5, 7c)	_____	_____
4. Does the design require that attendance and leave documents be maintained daily by designated employees:		
(a) who have positive knowledge as to employee's presence or absence? (6 GAO 16.2 and 20.7)	_____	_____
(b) who take no part in preparing the payroll or distributing pay checks or envelopes? (6 GAO 15.7)	_____	_____
5. Does the design contain the format of the attendance and leave documents? (6 GAO 16.2)	_____	_____
6. Does the format show: (6 GAO 16.2)		
(a) duty hours and the numbers of hours of duty?	_____	_____
(b) the nature and length of absences? (exact time of absence if less than a day)	_____	_____
(c) the time duty was performed?	_____	_____
(d) other circumstances affecting the payroll computation?	_____	_____

	<u>Answer</u>	<u>Reference</u>
7. Will a leave record be maintained for each civilian employee and member of a military or other uniformed service? (6 GAO 20.7)	_____	_____
8. Do the leave records show:		
(a) amounts earned and used and the balance available by type of leave? (6 GAO 20.7)	_____	_____
(b) leave without pay and other leave taken? (6 GAO 20.7)	_____	_____
9. Are the time periods of absence recorded each day either on the documents or in other related records in support of pay entitlement? (6 GAO 16.2 and 20.3)	_____	_____
10. For civilian employees, does the design provide that absences and leave taken will be initialed by the employee or supported by a signed application? (6 GAO 16.2)	_____	_____
11. Does the design provide that the individual's supervisor: (6 GAO 16.2 and 20.7)	_____	_____
(a) be informed as to the attendance or absence of the employee?	_____	_____
(b) approve the time and attendance report?	_____	_____
(c) approve and certify as to the correctness of leave taken?	_____	_____
12. Does the design require that employees shall not: (6 GAO 7,9,16.2 and 20.7)		
(a) certify or approve their own time and attendance reports unless specifically authorized in writing by the head of the agency or his designee?	_____	_____

	<u>Answer</u>	<u>Reference</u>
(b) be permitted to approve or certify their own leave?	_____	_____
13. Does the design show the forms and describe the controls to assure that:		
(a) overtime pay reported is authorized or approved in writing by the proper authority? (6 GAO 7, and 16.2)	_____	_____
(b) sick leave in excess of 3 days is supported by medical certification or other administratively acceptable evidence? (6 GAO 16.2)	_____	_____
(c) court leave and military leave is properly supported? (6 GAO 20.7)	_____	_____
14. Does the design show the location at which attendance and leave reports will be: (2 GAO 27.5, 3e and 6 GAO 16.2)	_____	_____
(a) recorded into payroll records?	_____	_____
(b) retained for audit purposes?	_____	_____
15. Where the technique of processing time and attendance data only for those employees receiving other than normal pay is used are controls provided to assure that all exception reports are received and processed? (6 GAO 16.2)	_____	_____
16. Are rates of accruals of leave determined in accordance with regulations and controls maintained to assure that the proper rate is applied? (6 GAO 20.7)	_____	_____

	<u>Answer</u>	<u>Reference</u>
17. Are advances of leave supported by written authorization, and controls maintained to assure that the advanced leave is not in excess of the amount permitted by law and regulation? (6 GAO 20.7)	_____	_____
18. Does the design describe the controls over the disposition of advanced leave? (6 GAO 20.7)	_____	_____
19. Are accumulated leave balances of employees transferring between organizations supported by signed reports from the transferring agency? (6 GAO 20.7)	_____	_____
20. Are provisions made for: (6 GAO 20.7)		
(a) the review of each leave record at the end of the leave year?	_____	_____
(b) reductions of leave accumulation in excess of statutory limitations?	_____	_____
*21. Are separate balances maintained for restoration of forfeited annual leave caused by administrative error, exigencies of the work or sickness when annual leave was scheduled in advance? (6 GAO 2.0 and 20.7)	_____	_____
22. Are leave records reviewed upon termination of employment or enlistment and pay adjustments made for unearned advanced leave, accumulated leave and leave ration credited in the pay records? (6 GAO 20.7)	_____	_____

	<u>Answer</u>	<u>Reference</u>
23. Are the controls described for correcting and processing of errors and rejected data? (6 GAO 20.9)	_____	_____
24. Are corrections and alterations of official records approved by an appropriate individual? (6 GAO 20.9)	_____	_____
25. For employees paid on a piecework basis, is a daily record of piecework completed maintained by designated employees? (6 GAO 16.2)	_____	_____

SUMMARY

Briefly comment on the controls over attendance and leave records and data.

Comment on any problem areas noted. (2/19/75 Memo Item D)

SECTION 6

PROCESSES

DEDUCTIONS, ALLOTMENTS AND ASSIGNMENTS

OBJECTIVES

Primary objectives are to:

- determine the controls over the processing of source documents and data which establish and authorize amounts to be deducted from an individual's pay; and
- ensure that amounts deducted are properly recorded and disbursed to the applicable payees.

DISCUSSION

The processes to be considered under this section include all statutory and voluntary deductions, allotments and assignments from the employee's pay.

CHECK LIST

	<u>Answer</u>	<u>Reference</u>
1. Does the design contain charts supplemented by a narrative description to show the flow of documents and data on deductions, allotments, and assignments from pay through the payroll system? (2 GAO 27.5,4a)	_____	_____
2. Does the design provide for controls over quantity, timeliness, reliability and accuracy of inputs, processing, and outputs of documents and data on deductions, allotments and assignments to assure accurate and prompt recording and reporting of their effects in the applicable pay period? (2 GAO 27.5,7b)	_____	_____
3. Have audit trails been identified in the system to enable tracing of recorded deduction, allotment and assignment data to supporting documents? (2 GAO 27.5,7c)	_____	_____

	<u>Answer</u>	<u>Reference</u>
4. Are all non-statutory deductions and allotments or assignments authorized in writing by the employee? (6 GAO 16.3 and 18.0)	_____	_____
5. Are statutory deductions for income taxes supported by a certification by each employee of the number of exemptions claimed? (6 GAO 16.3)	_____	_____
6. Are employees furnished annual tax withholding statements which agree with the total tax withholdings as shown by the records? (6 GAO 16.3)	_____	_____
7. Are the various deduction and allotment or assignment authorization forms listed (if standard government forms) or each format shown in the design? (6 GAO 16.3)	_____	_____
8. Does the authorization form for each type of deduction or allotment contain sufficient information to establish the deduction and enable proper payment of amounts deducted? (6 GAO 16.3)	_____	_____
9. Are all changes or cancellations of an authorization made in writing by the affected individual (except for employee separations)? (6 GAO 16.3)	_____	_____
10. Are all documents authorizing deductions maintained in current files to support each deduction? (6 GAO 16.3)	_____	_____
11. Are subsidiary payroll accounts or records maintained to provide detail data on payroll deductions? (2 GAO 27.5,3c)	_____	_____

	<u>Answer</u>	<u>Reference</u>
12. Is there a listing or outline of the subsidiary records that provide information needed to comply with prescribed requirements of other agencies and for management purposes? (2 GAO 27.5,3c and 6 GAO 20.6)	_____	_____
13. Are the following subsidiary records maintained: (6 GAO 20.6)		
(a) Retirement records? (6 GAO 20.6(1))	_____	_____
(1) Are the records maintained in conformance with the retirement system's requirements?	_____	_____
(2) Are the individual retirement account balances periodically reconciled with the total shown on the earnings record and to the control accounts?	_____	_____
(3) Does the design indicate how often reconciliations are made? (Civil Service Commission regulations require reconciliations at least quarterly)	_____	_____
(b) U.S. saving bond record? (6 GAO 20.6(2))	_____	_____
(1) Is a record included to show for each person, U.S. savings bond deductions, purchases, refunds, and unapplied balance?	_____	_____
(2) Are unapplied balances periodically reconciled to the general ledger control account? (6 GAO 18)	_____	_____
(3) Does the design indicate how often		

	<u>Answer</u>	<u>Reference</u>
reconciliations are made?	_____	_____
(c) Life insurance records? (6 GAO 20.6(3))	_____	_____
(1) Are the totals shown on the record reconciled with the amounts deducted from pay shown on the individual earnings records plus the agency's contributions?	_____	_____
(2) Does the design indicate how often reconciliations are made?	_____	_____
(d) Health benefit records? (6 GAO 20.6(4))	_____	_____
(1) Does the record show the number of employees and the deductions and agency contribution by each enrollment code?	_____	_____
(2) Is the number of enrollees included in the record reconciled to the numbers reported to each carrier?	_____	_____
(3) Does the design indicate how often reconciliations are made? (Reconciliations should be at least monthly)	_____	_____
14. Are controls maintained to assure that the amount deducted and/or contributed by the agency are paid to the applicable payee? (6 GAO 16.3)	_____	_____
15. Are amounts paid reconciled at least annually with the amounts withheld shown in the payee's records? (6 GAO 16.3)	_____	_____
16. Are periodic reconciliations made to determine whether amounts deducted by allotment and assignment are the same as amounts being paid the allottee? (6 GAO 18.0)		

	<u>Answer</u>	<u>Reference</u>
17. Does the design describe the controls over the accounting for payroll advances and their collection? (6 GAO 15.2 and 20.1)	_____	_____
18. Does the design contain a reference to, or a summarization of the approved regulations governing the collection of erroneous payments? (6 GAO 17)	_____	_____
19. Does the system provide for the prompt recording and collection of indebtedness due to erroneous payments? (6 GAO 17)	_____	_____
20. Are controls provided in the system to assure that the order of precedence for deductions is as follows? (6 GAO 19)	_____	_____
(1) Retirement or FICA		
(2) Federal income taxes		
*(3) Garnishments for alimony and child support		
(4) Health benefits		
(5) Group and optional life insurance		
(6) Indebtedness due the United States		
(7) State income taxes		
*(8) City income taxes		
(9) Other voluntary deductions including allotments and assignments in the order determined by the paying agency.		

SUMMARY

Briefly comment on the controls over authorized deductions.
 Comment on any problem areas noted. (2/19/75 Memo Item D)

SECTION 7

PROCESSES

COMPUTATION AND DISBURSEMENT OF PAY

OBJECTIVES

Primary objectives are to:

- ensure that the data which established the entitlement to pay, rate of pay, the deductions and allotments are properly considered in determining amounts payable;
- determine the adequacy of controls over timeliness, reliability and accuracy of recorded data;
- ensure that gross amounts computed and amounts payable and disbursed are properly recorded; and
- determine that the controls over amounts disbursed are adequate.

DISCUSSION

The processes to be considered under this section receive input from the other processes and compute the gross amount payable, deductions, allotments or assignments, and the net payment due. The processes include the recording of these amounts in the individual earnings records and in the subsidiary and summary accounts and records. The controls over amounts disbursed should be evaluated to assure that the proper payees receive the amounts due. Attention should be given to controls particularly over special types of pay.

CHECK LIST

Answer Reference

1. Does the design contain charts supplemented by narrative descriptions to show the flow of documents and data into the pay computation

	<u>Answer</u>	<u>Reference</u>
process, the means of computing and recording pay, allowances, and deductions, and the subsequent payment? (2 GAO 27.5,4a)	_____	_____
2. Is the system designed so that individual(s) engaged in the preparation and maintenance of documents authorizing or evidencing payment will not service their own individual pay documents or accounts? (6 GAO 9 and 15.1)	_____	_____
3. Does the design describe the controls over timeliness, reliability and accuracy of the inputs, processing, and outputs of documents which effect the computation of earnings and amounts due to assure accurate recording in the applicable pay period? (6 GAO 9,15.1 and 15.2)	_____	_____
4. Are the controls for the correction and processing of errors and rejected data described? (6 GAO 20.9)	_____	_____
5. Have audit trails been identified to enable the tracing of amounts computed and paid to the source documents, records, accounts and reports? (2 GAO 27.5, 7c and 6 GAO 20.8)	_____	_____
6. Is a record maintained for every individual of the pay, leave, allowances, deductions, and allotments to which entitled and payments thereof? (6 GAO 20.0, 20.1, 20.2, 20.3, and 21.0)	_____	_____
7. Is the format of the record included in the design? (6 GAO 20.0,20.1,20.2,20.3)	_____	_____

	<u>Answer</u>	<u>Reference</u>
(a) Does the record provide for information necessary to:		
(1) properly pay each individual?	_____	_____
(2) meet budgeting and reporting requirements?	_____	_____
(3) establish a permanent record of the actions taken?	_____	_____
8. Are corrections of data in official records approved by an appropriate individual and evidenced by an appropriate authorizing document? (6 GAO 20.9)	_____	_____
9. Are the individual earnings records printed at least annually for audit purposes? (6 GAO 20.0)	_____	_____
10. Are cumulative totals maintained for each civilian employee to provide summary data needed for reporting requirements? (6 GAO 20.1 and 21.0)	_____	_____
11. Are the amounts recorded on the individual civilian pay records reconciled at least quarterly to amounts recorded in related control records? (6 GAO 20.1)	_____	_____
*12. Are allotments and net pay paid by composite check or electronic transfer of funds supported by a remittance listing? (6 GAO 15.4)	_____	_____
*13. Is the format of the remittance listing included? (6 GAO 15.4)	_____	_____

	<u>Answer</u>	<u>Reference</u>
14. Are payroll vouchers certified by a duly authorized certifying officer who does not compute the individual amounts payable, maintain the payroll records or distribute the checks or envelopes? (6 GAO 9 and 15.3)	_____	_____
15. Are amounts due from prior period payrolls checked against prior period records before payment (military)? (6 GAO 20.2)	_____	_____
16. Are controls provided to prevent unauthorized use of blank military pay records and documents? (6 GAO 20.2)	_____	_____
17. Are controls provided over the entitlements to special pay (military)? (6 GAO 20.2)	_____	_____
18. Are piecework, attendance, and leave data which affect the computation of pay properly considered in the pay computation process to prevent inappropriate payments? (6 GAO 16.2)	_____	_____
19. Are payments for military training sessions made on the basis of documents authorizing the session and properly certified attendance records? (6 GAO 20.4)	_____	_____
20. Are payments made by a payroll office which does not normally service the employee subject to controls which will assure proper payment and recording of data (military)? (6 GAO 20.5)	_____	_____
21. Are the functions of cash payment, and of receipt of checks and bonds from the disbursing officer and delivery or mailing of payments to the payee,		

	<u>Answer</u>	<u>Reference</u>
performed by designated persons who do not have other payroll responsibilities? (6 GAO 9, 15.4 and 15.7)	_____	_____
*22. Are all payments made by check or electronic transfer of funds? (6 GAO 15.4)	_____	_____
If payments are made in cash:		
(a) are the reasons stated why payments are not made by check or electronic transfer of funds?	_____	_____
(b) is there a description in the design of the controls provided to assure the proper individual is being paid? (2 GAO 27.5, 7a; 6 GAO 7 and 15.4)	_____	_____
(1) is the payee properly identified?	_____	_____
(2) does the payee acknowledge payment by signing the payroll sheet or a receipt form at time of payment?	_____	_____
(c) are only properly delegated persons authorized to perform such disbursing function? (6 GAO 8 and 15.4)	_____	_____
(d) does the design indicate the physical safeguards maintained? (2 GAO 27.5, 7a)	_____	_____
(e) is there a prohibition against transmitting cash by mail? (6 GAO 15.7)	_____	_____

	<u>Answer</u>	<u>Reference</u>
*23. Are pay checks and bonds delivered (a) directly to the person being paid,(b) to a designated agent, or (c) through an official and controlled system, such as electronic transfer of funds, or (d) mailed? (the design should indicate which means is used) (6 GAO 9, 15.4 and 15.7)	_____	_____
24. Where applicable does the design require that the payee be known by or identified to the persons who deliver the pay checks or envelopes?(6 GAO 15.4 and 15.7)	_____	_____
25. Does the design describe the handling and controls for undelivered checks, pay envelopes and bonds? (6 GAO 15.7)	_____	_____
26. Does the design: (6 GAO 15.5 and 15.6)		
(a) establish reasonable cutoff dates for payroll processing?	_____	_____
(b) state the frequency of payment?	_____	_____
(c) indicate the time lag between the close of the pay period and the payment?	_____	_____
27. Does the design describe the system for payment of government employees during emergency evacuation? (6 GAO 26)	_____	_____
28. Does the design describe the controls which will provide effective checks that the processing of payroll data will be accurately performed? (6 GAO 7 and 15.2)	_____	_____
29. Does the design describe the controls over and the manner in which the following types of transac-		

	<u>Answer</u>	<u>Reference</u>
tions are accounted for:		
(a) the granting and paying of differentials and allowances to employees stationed at foreign posts? (6 GAO 7, and 22.1)	_____	_____
(b) payment and recording of allowances in kind? (6 GAO 22.2 and 23.0)	_____	_____
(c) entitlement to leave rations? (6 GAO 20.7)	_____	_____
*30. Does the design describe the controls which will assure that the appropriate provisions of the Fair Labor Standards Act are implemented? (6 GAO 2 and 4)	_____	_____

SUMMARY

Briefly comment on the control over the computation and disbursement of pay?

Comment on any problem areas noted. (2/19/75 Memo Item D):

SECTION 8

PROCESSES

INTERNAL MANAGEMENT CONTROL

OBJECTIVES

Primary objectives are to determine whether the proposed internal controls are adequate to assure that:

- financial records and reports are accurate and reliable;
- an adequate audit trail is provided;
- payments will be made in accordance with statutory requirements; and
- integrity of data in files will be maintained

DISCUSSION

An effective system of internal control is an important factor in the successful performance of the pay, leave and allowance functions.

Responsibility for assigned duties and functions should be appropriately segregated as between authorization, performance, keeping of records, custody of resources, and review, so as to provide proper internal checks on performance and to minimize opportunities for carrying out unauthorized, fraudulent, or otherwise irregular acts.

This section is closely related to and should be used in conjunction with the guide for Federal Agency Accounting System Designs: ADP application.

CHECK LIST

1. Does the control over payroll include regular authorization, approval, documentation, recording, reconciling, reporting and related accounting processes? (2 GAO 27.5,7a)

Answer

Reference

2. Does the design contain an outline of controls over quantity, timeliness, reliability and accuracy of inputs, processing, and outputs (whether for manual, automated, or mechanical systems) (2 GAO 27.5,7b) _____
3. Does the outline of controls sufficiently demonstrate reasonable assurance of accurate recording of transactions and reporting their effects in the accounting period in which they occur? (2 GAO 27.5,7b) _____
4. Do the controls provide that responsibility for assigned duties and functions will be appropriately segregated as between: (6 GAO 9) _____
- (a) Personnel operations such as the processing of appointments, promotions, and assignments; _____
 - (b) Supervising of performance, and granting, approving, and advancing of leave; _____
 - (c) Recording and reporting of attendance, absence from duty, and the time, and other circumstances affecting the computation of pay earned; _____
 - (d) Computation of pay, preparation of payrolls, and maintenance of individual payroll records; _____
 - (e) Certification of payrolls; _____
 - *(f) Payments of amounts due, including the issuance of checks and United States savings bonds (which may be delivered in bulk to agency locations for internal delivery to payees, mailed direct to payees or sent to payee's banks); _____

	<u>Answer</u>	<u>Reference</u>
(g) Internal agency distribution of pay checks, pay envelopes, and savings bonds; and		_____
(h) Maintenance of control records?	_____	_____
5. Does the design state the basis for auditability of the system in terms of operation and current condition? (2 GAO 27.5, 7c)		_____
6. Has a description been included in the design of the manner (audit trails) in which a particular element of data that exists in the files can be traced backward to the source of the transaction that created it and forward to its position in a report? (2 GAO 27.5,7c)		_____

SUMMARY

Describe briefly the internal controls planned for the system.

2/19/75 Memo Item C(i)).

Comment on any problem areas noted. (2/19/75 Memo Item D).

SECTION 9

ACCOUNT STRUCTURE

OBJECTIVES

Primary objective is to:

- ensure that the payroll system is designed to produce accurate and reliable disclosure of payroll transactions for recording in the general ledger and subsidiary classifications.

DISCUSSION

The evaluation of the general ledger accounts and subsidiary classification structure is a function of evaluating the general accounting system. The effect of payroll transactions must be recorded in that system. The payroll system must be capable of supplying payroll cost data for recording in the cost classifications and other accounts. In addition, certain accounts or records need to be established within the system for control and reporting purposes.

CHECK LIST

	<u>Answer</u>	<u>Reference</u>
1. Does the design describe the means by which payroll data is summarized for recording in the general ledger accounts? (2 GAO 27.5,3d)	_____	_____
2. Does the design describe the method used for distributing payroll data to the account classification structure included in the general accounting system? (2 GAO 27.5,4b)	_____	_____
3. Does the description of the classification structure indicate that payroll cost data will: (2 GAO 8.6, 16.4,27.5,1c, and 6 GAO 13.0)	_____	_____
(a) relate to the agency's organization structure?	_____	_____

	<u>Answer</u>	<u>Reference</u>
(b) relate to structure of internal operating budgets?	_____	_____
(c) be consistent with classifications used in budget requests presented to the Congress?	_____	_____
(d) provide fund and appropriation identification needed for reports to Treasury and OMB?	_____	_____
(e) relate to the agency's program, functions, and cost centers?	_____	_____
4. Does the design describe the controls (both during the fiscal year and at fiscal year end) to assure that employee's salary, benefits and allowances, and employer's contributions are charged to the applicable appropriation or fund? (6 GAO 23.0 and 24.0)	_____	_____
5. Is the system capable of providing data needed: (2 GAO 9.2, 16.8 and 6 GAO 20.7, 21)	_____	_____
(a) for recording the cost and liability for accrued annual leave?	_____	_____
(b) for recording the accrual of personnel service costs between the end of the pay period and month-end?	_____	_____
(c) by state employment security agencies?	_____	_____

SUMMARY

Describe briefly the basic structure of the accounts. (2/19/75 Memo Item C(1)(c)).

Briefly comment on the application of the accrual basis of accounting in the system. (2/19/75 Memo Item C(1)(a)).

Describe briefly (1) the treatment of accrued annual leave (2/19/75 Memo Item C(1)(h)), (2) payroll cost accounting for major organizational segments, budget activities, and programs (2/19/75 Memo Item C(1)(g)).

Comment on any problems noted (2/19/75 Memo Item D).

SECTION 10
PAYROLL REPORTS

OBJECTIVES

Primary objectives are to:

- identify the internal and external reports to be prepared;
- ensure that the agency plans to prepare all prescribed reports; and
- ensure that data needed to prepare each report is identified.

DISCUSSION

Reports are the means of communicating significant facts relating to the status of pay, leave, and allowance operation.

All payroll reports and report requirements should be identified so that data needed for their preparation can be considered in the development of the system.

The information to be included and the format of external reports should be in accordance with regulations or instructions issued by the agency requiring the information.

Reports may include not only hard copy documents but also immediate access to reportable data by the query of data files for systems using sophisticated equipment.

CHECK LIST

	<u>Answer</u>	<u>Reference</u>
1. Is there a listing by title (and form number, if assigned) of recurring internal payroll reports including for each report the purpose, frequency, period covered, or "as of" date? (2 GAO 27.5,2b and 6 GAO 27)	_____	_____
2. Does the listing include management reports to aid in the control of manpower and financial resources? (2 GAO 27.5,2c(1) and 6 GAO 27)	_____	_____

	<u>Answer</u>	<u>Reference</u>
3. Is a sample format for each internal payroll report included, showing illustrative data elements (column headings and stub captions), with proforma data inserted? (2 GAO 27.5,2c(2))	_____	_____
*4. Does the design provide that the provisions of the Privacy Act of 1974 will be complied with in: (6 GAO 2)		
(a) the development of the report content?	_____	_____
(b) determining report distribution? and	_____	_____
(c) developing controls over dissemination of information to outsiders?	_____	_____
5. Is the format of the pay change statement included in the design? (2 GAO 27.5,2c(2) and 6 GAO 16.1)	_____	_____
(a) Does the format provide for reporting gross pay, each deduction or allotment, and net pay? (6 GAO 16.1)	_____	_____
(b) Is the notification of change in pay produced by the payroll system? (6 GAO 16.1)	_____	_____
6. Is there a listing by title and form number of external reports to be produced? (2 GAO 27.5,2d and 6 GAO 27)	_____	_____
7. Do reports comply with applicable laws and regulations as to: (6 GAO 27)		
(a) frequency?	_____	_____
(b) nature?	_____	_____
(c) content?	_____	_____

SUMMARY

Describe briefly the basic types of reports to be produced by the agency.
(2/19/75 Memo Item C(1)(K)).

Comment on any problems identified. (2/19/75 Memo Item D)